

NATIONAL RURAL TRANSPORTATION INFRASTRUCTURE PROGRAM

STAGE TWO

(RURAL ROADS PROGRAM - STAGE TWO)

(PE-0140)

EXECUTIVE SUMMARY

Borrower:	The Republic of Peru	
Executing agency:	Ministerio de Transportes, Comunicaciones, Vivienda y Construcción (MTC) [Ministry of Transport, Communications, Housing and Construction]	
Amount and source:	IDB (OC):	US\$ 50 million
	Cofinancing (WB):	US\$ 50 million
	Local:	<u>US\$ 51 million</u>
	Total:	US\$151 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4,5 years
	Disbursement period:	4,5 years
	Interest rate:	variable
	Inspection and supervision:	1 %
	Credit fee:	0.75%
	Currency:	U.S. dollars, Single Currency Facility
Objectives:	To improve access by poor rural populations to basic social and economic services and income-generating activities through the provision of a dependable and integrated system of rural roads.	
Description:	The program is the second stage in a large project to rehabilitate and maintain rural roads in areas in the sierra with the highest poverty levels. The program, which is limited in its investment capacity compared to stage 1, seeks to augment geographic coverage in the 12 departments in where it is active, with a view to consolidating the socioeconomic benefits and building on the institutional and financial gains already made.	
	The physical goals of stage 2 are to rehabilitate 3,225 km of rural roads, 350 km of secondary roads, 3,100 km of nonmotorized roads, provide routine maintenance for all the roads that were rehabilitated in stage 1 (11,300 km) and those rehabilitated during this second stage.	

It will also provide periodic maintenance for 6,500 km rehabilitated in stage 1 which have reached the end of their useful life. The following pilot projects have been included in this stage to develop new actions: (i) a pilot intermodal transport project in the jungle that will, in the framework of sustainable development, improve access in areas where river transport plays a key role and (ii) a pilot project to transfer responsibility for managing the program's roads to local authorities.

In the institutional sphere, the program will: (i) increase municipal participation in financing routine and periodic maintenance; (ii) revise the technical procedures and costs of road maintenance microenterprises to promote their growth, improve their technical efficiency and achieve greater acceptance of them by municipal authorities and communities; (iii) develop and implement a sustainable system for municipal management of the rural road system, with technical, institutional and financial support from the central government; (iv) bolster the MTC's planning capacity and its ability to design policies and strategies for rural transportation; and (v) assist communities, microenterprises and local governments in developing productive activities and economic undertakings by establishing a local development window (paragraph 2.19(d)).

There is one central unit and 11 area units in the departments in which the program is to be implemented to ensure that is carried out more effectively.

**The Bank's
country and
sector strategy:**

The program will contribute to the following aspects of Bank strategy: (i) support the rehabilitation and expansion of productive infrastructure; (ii) contribute to poverty reduction and improve the coverage and efficiency of social services; (iii) support modernization of the public administration on the provincial and district levels; and (iv) support the provision of public goods and services to help integrate agricultural producers into the market.

**Environmental
and social
review:**

The road projects in stage 2 are simple and do not include paving or changes in alignment. The ex post environmental evaluation of a sample of roads rehabilitated in stage 1 confirmed that their environmental impacts are direct and small, chiefly associated with the works, and can be avoided or mitigated using known measures that are set forth in the environmental guides of the Programa de Caminos Rurales (PCR) [Rural Roads Program, Ministry of Transportation, Communications, Housing and Construction]. The program's operations manual also includes an environmental management system that acceptably integrates the socioenvironmental procedures to be complied with in all stages of a road project. Stage 2 includes environmental training activities for the PCR, its zonal units

and municipal authorities, and independent technical and environmental audits to be performed every six months.

Although the multimodal pilot project in the jungle involves small works and a limited area of influence, it could have indirect impact as a result of the development it will permit. As a condition precedent to the investments in infrastructure, a regional socioenvironmental impact study will be conducted for the pilot project, which will include extensive community consultation and participation. A plan of action will be designed based on the results, that includes preventive and mitigation measures and a strict evaluation and monitoring system that will permit corrective actions and adjustments for smooth and timely implementation. The pilot project includes the costs of mitigating potential direct and indirect impacts.

The program was reviewed by CESI at its meetings on 1 June 1999 and 1 June 2001 and its recommendations have been included in this loan proposal.

Benefits:

The program will benefit the poorest communities in the sierra that did not benefit during stage 1. There are 3.5 million potential beneficiaries living in isolated rural areas. The expected benefits are similar to those in stage 1, i.e. a sharp reduction in travel costs and times, expansion and diversification of the supply of transportation services, easier access to social services such as education and health care and to economic services (regional markets, agricultural inputs, rural extension services, public services, etc.). Better accessibility and dependability of the transportation system should, in the medium term, lead to economic growth in the area of influence of a road, thereby increasing income-earning capacity.

In the institutional sphere, the program will bolster the capacity of municipalities in the provinces to plan and manage the road systems in their jurisdiction, improving coordination with the districts and the use of funds, with stress on road maintenance. The program will support gradual decentralization of responsibility for execution, under clearly-established procedures, and will provide technical, institutional and financial support for participating municipalities.

Risks:

The main risks are associated with: (i) development of a sense of project ownership by communities and local governments that is linked to their own progress; (ii) willingness of the local authorities to assume responsibility for road management; (iii) scant municipal financial capacity for taking over a larger share of the cost of road maintenance; (iv) poor relations between the provincial capitals and the districts under their jurisdiction, which make it difficult to reach

maintenance cofinancing agreements; and (v) slow execution as a result of fiscal restrictions. To mitigate these risks, the program has developed a participative process that permits municipalities to strengthen their institutional capacity in tandem with the transfer of management and financial responsibilities. Policy and fiscal decentralization will be pivotal in mitigating this risk. The program design embodies management methodologies that have been adapted to accommodate the local governments' presently low capacity. A deepening of the decentralization process will also benefit the program. The technical and environmental risks are small, as demonstrated in stage 1, and are satisfactorily dealt with in the operations manual

**Special
contractual
clauses:**

Precedent to the first disbursement

1. The government's maintenance cofinancing mechanism must be operative and it must have signed at least 65 participation agreements with beneficiary municipalities (paragraph 2.11); and
2. The PCR must have approved the update of *the program operations manual* and obtained the Bank's nonobjection (paragraph 3.11).

Other conditions

Implementation

1. The program will only finance activities in provinces that have signed participation agreements with the PCR (paragraph 3.3);
2. If a municipality in the provinces does not comply, to the Bank's satisfaction, with the obligations stemming from its agreement, the PCR: (a) will not include new activities in that jurisdiction until the municipality has taken corrective measures satisfactory to the Bank; and (b) exclude all activities from its annual program, with the sole exception of activities under way or for which contracts are in effect (paragraph 3.4);
3. The PCR will present an annual program of activities no later than 30 November of each year, with regard to which consultations have been held with the participating municipalities (paragraph 3.16).

Follow up and evaluation

4. The PCR will submit quarterly progress reports to the Bank (paragraph 3.14), commission audits of technical (paragraph 3.13) and financial (paragraph 3.34) performance, conduct an assessment of social, economic, and environmental impact of program activities (paragraph 3.17), hold meetings with the Bank every six months to review implementation of the program (paragraph 3.15), and organize a special evaluation meeting in November 2003 (paragraph 3.17).
5. If, as a result of that work, the Bank determines that progress in the program is unsatisfactory, the PCR will take corrective measures to the Bank's satisfaction, in order to reestablish efficient execution and achieve the objectives (paragraph 3.15).

Disbursements

6. Spending by a provincial municipality that has not signed its participation agreement before the costs were incurred will not be eligible for retroactive financing (paragraph 3.3);
7. Spending on civil works in the pilot multimodal transport project may only begin when the PCR, prior to 31 October 2002, has performed the following to the Bank's satisfaction: (a) made the regional socioenvironmental impact study, the environmental action plan and the indigenous development program available to the public; (b) designed the monitoring system to evaluate social, economic and environmental impact, which must include participation by communities and indigenous groups; (c) agreed upon a detail frame of action with the different stakeholders in each area in the pilot project and identified sources of funding for the works and mitigation measures; and (d) reached agreements with local authorities, other donors and civil society organizations for coordinated and integrated action. Bidding on the civil works may not begin prior to 28 February 2003 or until four months have elapsed after the regional socioenvironmental impact study is made public (paragraph 2.17).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) under the geographic criterion. The program will consolidate its presence in the poorest departments and, within them, in the provinces with the highest poverty indexes. The work to develop comprehensive methodologies for transferring management of rural transportation infrastructure in pilot provinces does not invalidate this classification. The country will not be using the 10 percentage points in additional financing.

Exceptions to Bank policy:

Routine maintenance of the rehabilitated roads is a key part of the program's sustainability strategy. Securing financing for this activity will make it possible to achieve the objectives in the areas of municipal participation in road management and the operation of road maintenance microenterprises that will create jobs and bring social and economic benefits. The inclusion of the cost of routine maintenance (US\$30.1 million out of a total of US\$151 million or 20 percent) in the program, which will be used to contact microenterprises, will ensure that this major institutional and technical goal can be attained. The IDB will finance US\$5.2 million (17 percent) of the cost of routine maintenance (for 10.4 percent of its loan). This financing is an exception to policy OP-707 *Maintenance and conservation of physical works and equipment*, which is requested here (paragraph 2.14).

Procurement and review procedure:

International competitive bidding will be compulsory for contracts for works over US\$3 million, consulting services over US\$200,000 and the procurement of goods and related services over US\$250,000. Local competitive bidding will be used for works costing more than US\$50,000, following procedures acceptable to the Bank.

Exception to the procedures for contracting works. Direct contracting in amounts not exceeding US\$50,000 per contract will be permitted for (i) *Rural roads committees* for construction of nonmotorized roads (paragraph 2.15); (ii) *road maintenance microenterprises* established under the program (paragraph 2.14); and (iii) *municipalities and small works contractors* for periodic and emergency maintenance requiring the intensive use of equipment. The aggregate cost of these contracts may not exceed US\$3 million (paragraph 2.14). Direct contracting of small works contractors and municipalities for these activities will require prior authorization from the Bank.

Exception to the procedures for contracting services. To establish the local development window (paragraphs 2.19 (d) and 3.24), the PCR may sign a contract with CARITAS of Peru to manage the facility.

CARITAS, for its part, would also contribute financial resources, professional experience and geographic coverage (it has 48 diocesan organizations that are active in participative processes, the evaluation of social needs and the structuring of development initiatives). The agreement would clearly spell out the responsibilities of the parties. Under the arrangement, CARITAS will be a sole-source supplier, and therefore an exception to Bank contracting procedures is requested. The program contribution will amount to US\$560,000, with the Bank providing US\$237,000. Should the PCR opt to use another entity to manage the facility, it will have to adhere to the Bank's standard procedures.

Procurements of goods will mainly be limited to office equipment, computers and vehicles appropriate for the zones where the program will be active. International competitive bidding will be required for procurements worth more than US\$250,000.

All the bid processes for civil works costing more than US\$1 million and all procurements of goods will be subject to prior examination by the Bank. The same will hold true for the first bid for works conducted by each zonal unit or authorized municipality. In all other cases, the Bank will perform ex post reviews.

Consulting services estimated to cost US\$100,000 or over, all sole-source contracts, and contracts for individual consultants over US\$50,000 will be subject to prior review. For consulting services below these thresholds, only the terms of reference for contracts not covered in the program's operations manual will be subject to prior review. In all other cases, the Bank will perform ex post reviews.